

Upon call of the Governor a special meeting of the Federal Reserve Board was held in the office of the Federal Reserve Board on Saturday, January 19, 1924, at 3:00 p.m.

PRESENT: Governor Crissinger
Mr. Hamlin
Mr. James
Mr. Cunningham
Mr. Dawes
Mr. Noell, Assistant Secretary

PRESENT ALSO:
Mr. Harris, Chief Examiner, Ninth Federal Reserve District.
Mr. Herson, Chief Examiner, Federal Reserve Board.
Mr. Wyatt, General Counsel, Federal Reserve Board.

Mr. Dawes discussed with the Board the critical situation existing in the Ninth Federal Reserve District and submitted the following memorandum to the Deputy Comptroller of the Currency containing a tentative suggestion along the lines of which he hoped some definite plan could be worked out:

"I should like to have you report on the feasibility and legality of the following suggestion for providing relief for member banks of the Federal Reserve System in the Ninth Federal Reserve District. The plan is based on the assumption that economic conditions are substantially improved but that many of the banks are in such a non-liquid condition that they would not be able to meet any substantial demands made upon them by the creditors and depositors of the banks. The very large number of failures, mostly in State banks, has resulted in a sort of moral collapse in many of these districts so that with the increased income of the communities there has not come a corresponding increase in the deposits and resources of the banks. The money which should normally flow back to the banks is going into postal savings, government certificates and socks. The continued extension of credit without a definite improvement in financial condition is no remedy for such a situation."

"It is proposed to recapitalize a number of banks in this district whose capital stock has become impaired. In districts of this kind the banking operations are carried on in groups, the individual members of which usually focus their operations

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"through one key institution. The strengthening of these key institutions would give relief to a whole group and it is proposed to direct our efforts entirely towards these key institutions who will radiate to the other members of a group the relief which is accorded them. In National banks where the capital is impaired the Comptroller of the Currency may levy an assessment of such an amount as is necessary to restore solvency and the original capital. If the capital of 50 to 100 banks whose capital is now impaired could be restored it is the general opinion that with the cooperation of governmental agencies a condition would be created, which over night, would cure the moral collapse and restore confidence which would be built on a reasonable foundation. The plan suggested is roughly as follows:

"First: A syndicate is to be formed composed of New York and Minneapolis financiers and bankers. The Comptroller of the Currency will issue notices of impairment of capital to the various National banks in this district, and such assessments as are not met by the individual stockholders will be underwritten by this syndicate. The syndicate will hold as security for this the notes of the individual stockholders and all of their stock in the bank. It is estimated that about one-half of the assessments can be met by the local stockholders so that this two and one half million dollars contribution of the syndicate would be the direct means of restoring five million dollars new capital to these banks. "

"Second: It is proposed that the Federal Reserve banks shall release at least five million dollars of excess collateral which they hold to the loan of the member banks. It is my personal opinion that this collateral ought to be released in any event, but it is obviously to the advantage of the Federal Reserve banks if they can get five million dollars of new capital put back in the creditor banks by releasing five million dollars of excess collateral. The unfreezing of this five million dollars of good collateral for the benefit of the member banks, taken with the increased capital, improves the condition of the banks ten million dollars. "

"Third: It is proposed that the War Finance Corporation should buy an amount of notes of these banks which would produce five million dollars for the banks. It will be easily possible to select notes which come under the general requirements of agricultural or live stock investments. It is not contemplated by me, at least, that these notes bought by the War Finance Corporation should be

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"gilt-edged paper. The War Finance Corporation has operated at a profit and it was organized for the express purpose of meeting emergencies of this kind, and it seems to me to be an eminently proper form of investment for them in view of the tremendous relief to be afforded by the general plan."

"These three sources of relief would make a net sum available for the improvement of this situation of fifteen million dollars. The method of handling this transaction is briefly as follows:

"A syndicate is to be formed composed of three members, one, a representative of the private interests; two, a representative of the Federal Reserve Bank of Minneapolis; three, a representative of the Comptroller of the Currency. The Federal Reserve Bank of Minneapolis would be the syndicate manager. The representative of the Comptroller of the Currency would be the Chief National Bank Examiner for this district. The funds devoted to the relief of the National banks should be under the primary control of the Chief National Bank Examiner, who is, of course, thoroughly familiar with the condition of the individual banks. His disbursements would require the approval of the syndicate committee. The Federal Reserve Agent would have general responsibility for the State member banks. The War Finance Corporation would pay in at once their proportion for the benefit of this syndicate and the Federal Reserve Bank would deliver back currently the excess collateral under direction of the syndicate committee, it being an element of their contract that they should release this collateral as the capital is paid in. The private subscribers to the syndicate would pay in their money on call."

"Without making any general argument I suggest the following points as being very important:

"First: The inception of the plan rests primarily with local bankers, whose institutions are sound and solvent and who receive no benefit from the undertaking except the general improvement in condition of the districts in which they operate. Their good faith is assured by their financial contribution."

"Second: The Federal Reserve Banks will probably be financially strengthened by this operation as it will greatly strengthen the financial condition of their creditors. This, however, is not a situation which will reflect itself in bookkeeping."

"Third: An available fund of fifteen million dollars and announcement that a private syndicate, backed by the Federal Reserve Bank and the War Finance Corporation, is now undertaking to cure the situation in this district will result in a restoration of confidence that may mean a return to the banks of capital now in hiding and it

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"would be of a much larger amount than the fifteen million dollars immediately available. This, of course, is an intangible thing which nobody can estimate. If this plan is feasible it is vital that it should be put into immediate effect."

After discussion Mr. Hamlin offered the following resolution:

"Resolved, that Messrs. James and Cunningham be appointed a Committee of the Board to cooperate with the Comptroller, and further, that the situation is such that it demands speedy relief, that the Federal Reserve Board will lend its moral support and trusts that some lawful method may be found to work out the plan."

Carried.

Mr. Hamlin then presented a memorandum dated January 19th, from Counsel requesting authority to publish in the Federal Reserve Bulletin the Board's ruling of January 18th with regard to the rediscount of paper of non-member banks secured by government obligations.

Approved.

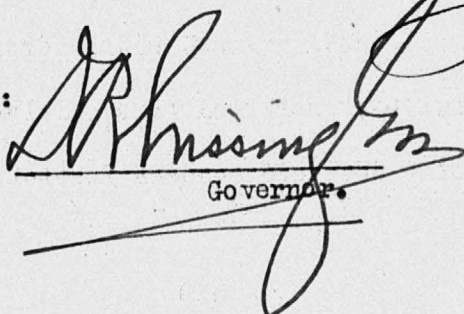
REPORTS OF STANDING COMMITTEES:

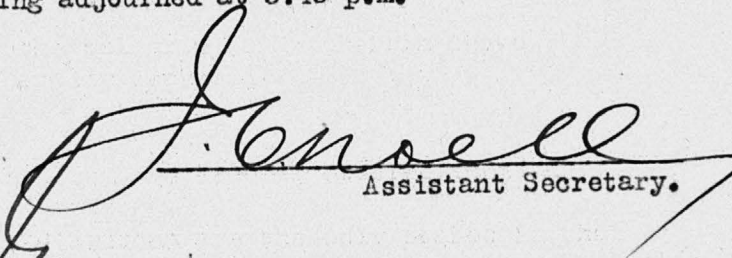
Dated, January 19th, Recommending changes in stock at Federal Reserve banks, as set forth in the Auxiliary Minute Book of this date.

Approved.

The meeting adjourned at 3:45 p.m.

Approved:


Governor.


Assistant Secretary.